



Cap-and-Trade Stakeholder Meeting

August 29, 2005

Key Features of a Multi-Sector Cap-and-Trade System

- ❑ Cap-and-trade would apply across two or more economic sectors.
- ❑ Absolute caps are set on greenhouse gas emissions.
- ❑ Emissions allowances are issued to participants (i.e. specific sectors or industries).
- ❑ Trading of allowances among sectors could minimize compliance costs.
- ❑ The greater the number of participants, the greater the potential exists for significant GHG reductions, and the lower the costs.

Option 2: Multi-sector Cap-and-Trade without Emissions Offsets

Pros:

- ❑ Depending on level of participation, this option could cover a large share of GHG emissions.
- ❑ Trading across multiple sectors provides incentives to reduce emissions at low cost.
- ❑ Performance-based technology innovation is encouraged through innovation by participating industries.

Option 2: Multi-sector Cap-and-Trade without Emissions Offsets

Cons:

- ❑ High quality, facility-level inventory is needed for compliance but does not currently exist.
- ❑ High up-front costs to establish measurement protocols and emissions tracking systems.
- ❑ Assignment of emissions allowances to individual sectors would be controversial and potentially costly.

Option 3: Multi-sector Cap-and-Trade with Some Offsets outside the Cap

- ❑ Stationary sources, such as power plants and industrial facilities, would be subject to a declining cap on emissions.**
- ❑ Buying and selling excess allowances would be allowed to meet the cap.**
- ❑ Qualifying offsets would need to be real, surplus, quantifiable, verifiable, and permanent.**
- ❑ European Union allows offsets through the Clean Development Mechanism under the Kyoto Protocol.**

Option 3: Multi-sector Cap-and-Trade with Some Offsets outside the Cap

Pros:

- ❑ Offsets could provide flexibility to meet a declining cap on emissions by creating a pool of available reductions.
- ❑ Offsets could be less expensive and more available than onsite reductions or buying allowances.
- ❑ Offsets could reduce the overall costs of emission reductions.
- ❑ Allowing offsets could encourage new market entrants and prevent market power abuses.

Option 3: Multi-sector Cap-and-Trade with Some Offsets outside the Cap

Cons:

- ❑ Some offsets are difficult to quantify and verify.
- ❑ Transaction costs may be high, i.e. emissions verification may be difficult or expensive.
- ❑ Double counting is possible with surplus offsets.
- ❑ There may not be a large number of real offsets available.

Specific Issues to be Addressed

- ❑ What sectors of the California economy would be candidates for a multi-sector cap-and-trade?
- ❑ What is the best method for verifying emission reductions?
- ❑ What emissions should be covered (i.e. direct combustion-related versus process-related emissions)?

Selection Criteria for Participation

- ❑ Relative contribution to total GHG emissions
- ❑ Ability of a specific industry or sector to make cost-effective reductions
- ❑ Total number of emissions sources which require controls

Candidate Industries for Caps, Trading or Selling Offsets

- ☐ Power Sector
- ☐ Petroleum refining
- ☐ Cement Industry
- ☐ Natural Gas Compressors
- ☐ Semi-Conductor Industry
- ☐ Landfills
- ☐ Dairy or Manure Management
- ☐ Forestry or Agricultural Sinks
- ☐ Transportation Sector